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### COMMISSION ON AUDIT JOURNAL

The Commission on Audit Journal is published quarterly by the Commission on Audit of the Republic of the Philippines. All auditing personnel throughout the country and all other interested parties are invited to submit articles, special reports and news items on accounting, auditing, finance, budgeting and other related subjects.

Correspondence regarding contributions and other editorial matters should be sent to the Editors. Subscriptions and correspondence relating to business matters should be addressed to Mrs. Purita M. Vestil.

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A REPRINT

# APPROACHES TO GOVERNMENT AUDITING AROUND THE WORLD

JAMES R. HAMILTON

*The following article, on approaches to government auditing around the world is a reprint from the US GAO JOURNAL, Winter issue, written by James R. Hamilton, a member of the two-man Training Review Team for Asia of the United States General Auditing Office who visited COA last year.*

Supreme Audit Institutions (SAIs), such as the General Accounting Office, carry out a variety of functions. We are familiar with those that GAO emphasizes, namely reviews of financial compliance, economy and efficiency, and program results. However, the emphasis of SAIs around the world is often limited to an array of other functions, which range from budgetary and accounting activities to

providing officially binding legal opinions and determining accountability of public officials. Pursuing these functions sometimes leaves little, if any, time for efficiency audits or program evaluation. Through the years the legislatures have delegated many specific functions to SAIs such as prior and/or post approval of individual financial transactions of executive agencies.

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The disparity among the various approaches legislated for SAIs has its roots in the divergence of cultural, political, and economic systems of the world. It also has to do with the evolution of the state of the art of modern management and accountability, of which GAO has been a part. Most will agree that some form of uniform government accounting and auditing standards must be developed to foster the growth of the international audit community. The benefits in terms of better cooperation and understanding among audit organizations and governments will make the effort worthwhile.

At the same time, any standards must allow for the audit and reporting needs peculiar to each country's economic, social, and political situation and stage of development. With this in mind we can explore some of the types of ongoing and future collaboration that can reap benefits for each SAI and government involved.

### Many Different Functions

SAI functions range from expenditure preaudits and adjudication of financial accounts of public officials to the more recent concepts of external financial audits, economy and efficiency reviews, and program evaluation. Let's describe a few that have most commonly been mandated by the legislature or the executive.

**Expenditure preaudit:** The SAI examines the documentation for a

specific expenditure request by a government official/manager to ensure that it meets the judicial requirements. If it meets the legal requirements/restrictions, the SAI approves the transaction.

**Voucher audit:** Similar to the expenditure preaudit but the SAI reviews the documentation for compliance after the financial transaction is made;

**Adjudicating accountability of public officials:** In many countries which were a part of the French, Spanish, or Portuguese colonial systems the SAI is called the "Court of Accounts." The auditor general is in fact the president of a panel of judges which adjudicate each government official who has responsibility for a government account(s). After the end of the calendar or fiscal year each ministry sends to the Court of Accounts its financial records for this judicial review process.

**Financial audits:** Post audits of the accounts of a government organization or component activity and its reports on the results of its financial operations over a period of time. These audits can be carried out for various purposes. The most common are for

- \*determining compliance with tax laws;
- \*determining compliance with other legal restrictions on financial operations or reporting;
- \*assessing outstanding claims

against the government, individual, or government contractor;

\*evaluating the organization's system of internal control and adherence to sound financial management and reporting practices.

**Economy and efficiency review:** Comparisons of existing management procedures with more economical or efficient methods that will result in a cost saving to the government. They result in a report which lays out the alternatives and makes recommendations to realize these cost savings. Canada refers to these as "value for money" audits.

**Program evaluations:** Reviews of program outputs. They determine whether a government program has or is reaching its intended objectives as stated in the implementing legislation. They often cross agency jurisdictions and the audit report is addressed to the head of each agency with responsibility for carrying out some part of the program. They may include recommendations to the legislature on ways to improve the program and amend the legislation.

In most SAIs we find a mix of these audit techniques. Few employ all of them, and many are limited to the first three types with little or no audits of internal controls, compliance with generally accepted accounting principles, or reviews of economy and program results. For the most part reviews of internal controls, economy and effi-

ciency, and program evaluation are limited to the SAIs of the United States, the United Kingdom, Canada, Australia, New Zealand, the Scandinavian countries, and Israel. The socialist bloc SAIs, of course, have very comprehensive audit systems which review the outputs of both government and industrial programs and are an important element in what they call "social control," a system of complaint-lodging. However, for reasons of practicality, their work remains outside the scope of this article.

### Why the Differences?

The differences in audit methods are attributable to a variety of economic, cultural, and political backgrounds and traditions. For example, most governments do not have the clearly defined separation of powers of the U.S. constitutional framework. Many developing countries have agriculturally based economies without the demands for sophisticated economic reporting that industrialized nations experience. However, adherence to outmoded but traditional methods of accounting often impedes rational evolution of the art, hence the opportunity for attracting the country's talented youth to the profession is lost.

### Economic and Cultural Traditions

Many developing countries are still tied to the economic practices established under their former colonial administration. These systems, based on the continental

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European model, are oriented to accountability for the legality of each financial transaction or groups of transactions rather than an integrated system of accounts and reports. The purpose of these traditional systems was to prevent fraud. The rapid increase in economic activity, however, insures that most of the transactions, if examined at all, will be so examined after such considerable delay, that any improprieties found may not apply to those who currently hold positions of responsibility.

## Independence of the Audit Organization

Most governments do not have the clearly defined separation of powers provided by the U.S. constitutional framework. In parliamentary systems, for example, heads of executive agencies as well as the auditor general are members of parliament. The auditor general is, therefore, in the business of auditing his colleagues. This situation can be alleviated if membership on the auditing board or committee to which he reports is bipartisan. In many developing country governments the auditor general is installed by the chief executive and reports directly to him. Thus, the auditor general is in the delicate position of reporting to the president on operations over which the president has administrative responsibility. The auditor general, who in this case is a part of the executive branch, is likely to tell his president what he wants to hear. As the saying goes, "It is a strange

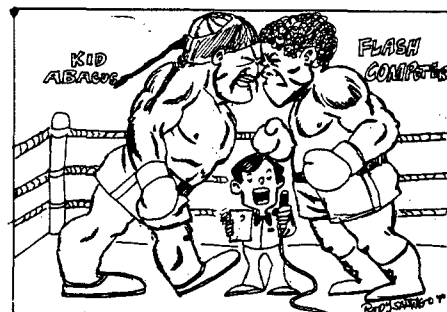
dog that willingly carries the stick with which it is to be beaten."

## Legislative Restraint Mandate

National legislatures often delegate many specific verification functions to SAIs in each piece of new legislation. These include prior approval of individual financial transactions of the executive agencies and post-transaction voucher audits. These processes are very time-consuming and usually provide little or no benefit in promoting sound financial management. The SAI staff, therefore, is left with little or no time or resources to do anything else.

## Computers vs. the Abacus

It goes without saying that as the financial operations become more sophisticated so must the auditing techniques used to evaluate and report on them. However, even nations at the lower end of industrial activity and development need sound financial management and reporting to ensure that the scarce resources available to the government are administered well and to use as a basis for projecting future requirements accurately.



## Evolution of the State of the Art

In both business and government, the practice of financial accountability has progressed rapidly in the last 50 years. Today there is a much wider range of techniques and methodologies available to SAIs than would have been imagined 25 years ago. Needless to say, governments and SAIs are at different stages in taking advantage of this new body of knowledge and experience.

## Staff Capabilities and Training

In many countries, until quite recently, accountants operated only at the "bookkeeper" level and had training opportunities only through the high school level. In other nations, the certified public accountant or chartered accountant has enjoyed professional recognition and commensurate educational opportunities through the graduate level for a number of years. As one might expect there are great disparities in the availability of courses, course materials, and trainers from country to country and region to region.

## The Merits of Standardization

How much standardization of government accounting and auditing is possible in a world with such

divergent political, cultural, and economic systems? Indeed, how much is desirable? Let's take a look at some of the merits of standardization. Then perhaps we can decide how much can realistically be expected and how it would be adapted.

Comptroller General Staats recently noted there are already indications of the kind of cooperative benefits that can be achieved when government auditors work together across geographic lines. For example, an agreement between the U.S. Department of Defense and the French Ministry of Defense provides for reciprocal audits of U.S. and French Government contracts. The French Government will audit U.S. Government contracts placed in France, and U.S. Government audit agencies — primarily the Defense Contract Audit Agency — will audit French Government contracts with American manufacturers. This agreement is similar to other international audit agreements. For such cooperation to be extended, it will be necessary to develop accounting and auditing standards which are accepted by more countries.<sup>1</sup>

We should not underestimate the difficulty of the task, given the variety of accounting and auditing

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<sup>1</sup>Staats Elmer B. "Government Auditing: An International Review." *International Journal of Government Auditing*, April 1979, p. 8

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practices followed by SAIs around the world. And we should not forget that agreement upon auditing standards within the United States is a recent accomplishment. It was not until the early 1970's that the American Institute of Certified Public Accountants published audit standards. However, they relate solely to audits designed for expressing opinions on financial statements.

During this same period GAO established standards for government audits to ensure compliance with the law and regulations, efficiency and economy of operations, and effectiveness of programs in achieving established goals. GAO borrowed from the American Institutes standards and procedures applicable to audits performed to express an opinion on the fairness with which an organization's financial statements presents its position and results of operations. The most obvious benefit of movement toward standardization is that it fosters the collaboration of accounting and auditing educators and practitioners. This collaboration in turn encourages use of the most recent developments and techniques of the profession. It should be viewed as a dynamic process with doors open to developments made in the government and private sectors of public accounting.

Such a process should find strong professional associations assisting their weaker counterparts. However, generally accepted audit practices and strategies must be adapted

to the economic/political/cultural framework peculiar to each country if they are to be accepted and used.

### Prospects for the Future

Government organizations, international and regional associations of SAIs, professional associations, and the international CPA firms can all benefit from collaboration in developing and disseminating mutually accepted auditing standards. Their promotion of seminars, conferences, and training activities can raise the level of awareness of practitioners and educators and inform them of existing auditing problems and opportunities that transcend national boundaries. The objective is to enrich the international accounting and auditing profession with those practices and techniques which have been tested and proven effective and relinquish those which no longer contribute to good management. Following are some recent types of professional collaboration that have proven beneficial and are promising for the future.

### Government Organization to Organization

For years the Auditors General of the Commonwealth nations have participated in auditor exchange programs, mutual training, and development exercises. In addition, the Comptroller General of the United States recently initiated a Fellowship Program. He sent letters to the heads of more than 100 supreme audit institutions in devel-



oping nations inviting them to nominate individuals for fellowships to work with GAO for periods of 6 months to 1 year. Six Fellows recently began participating in this program in which on-the-job experience with GAO teams is supplemented with training courses to develop those skills which auditors will need in the future. Also, the German Foundation for International Development has offered several courses on auditing to the member SAIs of the Latin American Institute of Auditing Sciences and the Asian Organization of Supreme Audit Institutions.

#### International and Regional Associations

The International Organization of Supreme Audit Institutions and the United Nations recently cosponsored an inter-regional auditing seminar in Vienna, Austria. Among its regional affiliates the Latin American Institute has been most active in recent years in promoting professional training courses for its member auditors. For example, between 1976 and 1978, when the Office of the Comptroller General of Ecuador served as the site of the Secretariat, this group conducted 29 training events, at which 872 SAI officials spent 108,860 participant classroom hours. All 22 member organizations of the Latin American Institute partici-

pated in at least some of these courses.<sup>2</sup> The newly formed Asian Organization has programmed several training activities to be hosted by selected member organizations in the next few years. And the African Organization of Supreme Audit Institutions has recently targeted recruiting and training of audit personnel as one of its principal areas of interest.

#### Professional Association to Association

Several efforts are underway to bring national professional associations of accountants and auditors into regional and international groupings to encourage further collaboration and agreement on professional standards. The International Federation of Accountants is developing international standards through a committee in association with the national accounting associations of its member nations. The Federation includes 10 developed and 2 dozen developing nations; each is represented by its chartered accountants institute.

In 1977 the International Consortium on Government Financial Management was founded. The principal founding member organizations were ILACIF, the Association of Government Accountants (USA), the Municipal Financial Officers Association (USA and

Canada), Public Finance (United Kingdom), Auditor General (Philippines). These efforts to increase cooperation and exchange of ideas and information in the world of government accounting. The Commission on world-wide information related management

Regional professional associations promote the exchange of ideas and information. In the International Federation of Accountants, over 2,000 members participate in the exchange of information on the topics of professional organization, standardization, and varying complexity of government (2) current trends, information and account

<sup>2</sup>Report of the President of ILACIF for the period 1976-1978, p. 7

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Canada), the Chartered Institute of Public Finance and Accounting (United Kingdom), the Canadian Auditor General's Office, and the Philippine Commission on Audit. These founding members hope to increase the Consortium's membership and participation by individuals and groups from all parts of the world concerned with specialized areas within the broad field of government financial management. The Consortium promotes the worldwide exchange of programs, information, documents, and ideas related to government financial management.

Regional groupings of professional associations also actively promote the exchange of information and ideas across national boundaries. In Asia, for example, the Confederation of Asian and Pacific Accountants, with a membership of over 2,000, held its triennial conference in Manila in October 1979. The three principal conference topics were (1) the role of the organization in achieving harmony between international accounting standards and developing nations' varying stages of business complexity and technological expertise, (2) current accounting developments, and (3) academic preparation and continuing education of accountants.

### International CPA Firms

Several of the international CPA firms have considerable experience in government auditing and offer training courses based on their

experience. The international financial institutions, such as the World Bank and Inter-American Development Bank, often use their services to audit developing country use of their loans. This, as well as contractual consulting services to the national governments, has increased the CPA firms' experience in the auditing of developing country government entities. SAIs and the international CPA firms should benefit from an exchange of each others' experiences and methods.

### Educational Institutions


Centers to train accountants and auditors as well as educational associations have a lot to offer SAIs and vice-versa in the evolving state of the art. One such institution is the Center for the Study of Professional Accounting of Florida International University. The center hosted a Conference on the Needs for Accounting Education in Developing Countries in late 1978. The conference provided an opportunity for leaders of accounting education in the Western Hemisphere, representatives of the principal international organizations, and representatives of the SAIs and other audit organizations to exchange views and perceptions.

Other centers of professional development also are cooperating with SAIs and other governmental audit organizations to provide training and research in the field. The Center for International Account-

ing Development of the University of Texas at Dallas and the International Management Development Department of Syracuse University are active in this exchange. In August 1978 the American Accounting Association published the results of a study, *Accounting Education and the Third World*, which includes five individual country appraisals of capabilities in this field.

#### A Final Comment

Governmental auditing must keep up with the accelerating rate

of economic and social development in today's world. The alternative is, inefficient use of governments' material and human resources. Supreme Audit Institutions (GAO and its counterparts) increasingly recognize that while their nations' accounting and auditing practices must be adapted to the specialized needs of their particular economic/cultural/political system, each can benefit from the mutual exchange of experiences, joint training activities, agreement on goals and standards, and interaction with other practitioners and educators in the field. 

*Mr. Hamilton is a management analyst in the International Division. He has an M.B.A. in international business from the George Washington University. Recently, Jim worked in several countries in Latin America and Asia on reviews of their auditing practices and training programs.*

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